ELBIT SYSTEMS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2001
(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Elbit Systems Ltd.

We have audited the accompanying consolidated balance sheets of Elbit Systems Ltd. (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and in Israel, including those prescribed by the Auditor's (Mode of Performance) Regulations (Israel), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2001 and 2000, and the consolidated results of its operations, changes in shareholders' equity and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Luboshitz Kasierer
Arthur Andersen

Haifa, Israel
March 24, 2002

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ELBIT SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	Note	December 31 2001	December 31 2000
CURRENT ASSETS			
Cash and cash equivalents		44,064	51,716
Deposits with banks and others	(3)	2,940	2,883
Accounts receivable - trade, net	(4)	241,827	206,383
Other receivables and prepaid expenses	(5)	38,227	37,493
Inventories, net of advances	(6)	185,090	131,024
Total current assets		512,148	429,499
INVESTMENTS AND LONG-TERM RECEIVABLES			
Affiliated companies and other investments	(7)	31,492	35,501
Long-term receivables	(4)	64,804	83,936
Deposits	(8)	3,433	3,623
Severance pay fund	(16)	3,796	3,963
		103,525	127,023
PROPERTY, PLANT AND EQUIPMENT	(9)		
Cost		301,664	262,081
Less - accumulated depreciation		116,890	96,200
		184,774	165,881
OTHER ASSETS, NET	(10)	105,283	104,538
		905,730	826,941

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	Note	December 31 2001	December 31 2000
CURRENT LIABILITIES			
Loans and short-term credit	(11)	46,894	51,315
Accounts payable - trade		111,182	94,142
Sundry accruals	(12)	136,803	115,425
Advances from customers, net of inventories	(13)	93,342	94,518
Total current liabilities		388,221	355,400
LONG-TERM LIABILITIES			
Long-term loans	(14)	69,202	57,713
Accounts payable - trade		-	1,623
Advances from customers, net	(13)	29,840	33,789
Deferred taxes	(17)	21,989	19,431
Employee termination obligations	(16)	12,499	13,299
		133,530	125,855
CONTINGENT LIABILITIES AND COMMITMENTS	(15,18)		
MINORITY INTEREST		5,994	4,958
SHAREHOLDERS' EQUITY			
Share capital	(20)		
Ordinary shares of NIS 1 par value; authorized - 80,000,000 shares; issued and outstanding 38,739,093 shares; (2000 – 38,153,233 shares)		11,054	10,916
Additional paid-in capital		244,625	235,462
Retained earnings		126,627	97,963
		382,306	344,341
Less - treasury stock		4,321	3,613
		377,985	340,728
		905,730	826,941

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of U.S. dollars, except for per share amounts)

	Note	For the year ended December 31		
		2001	2000	1999
Revenues	(21)	764,501	591,084	436,030
Cost of revenues	(22)	553,957	432,786	319,783
Restructuring expenses - inventories write- off		-	10,300	-
Gross profit		210,544	147,998	116,247
Research and development expenses, net	(23)	60,103	44,274	32,655
Marketing and selling expenses	(24)	54,923	38,449	28,575
General and administrative expenses	(25)	43,524	26,251	15,482
Purchased in-process research and development	(1)	-	40,000	-
Restructuring expenses	(1)	-	11,800	-
		158,550	160,774	76,712
Operating income (loss)		51,994	(12,776)	39,535
Financing income (expenses), net	(26)	(2,618)	115	1,645
Other income (expenses), net	(27)	774	3	(164)
Income before income taxes		50,150	(12,658)	41,016
Provision for income taxes	(17)	11,003	6,227	9,743
		39,147	(18,885)	31,273
Equity in net losses of affiliated companies and partnerships		(598)	(1,429)	(723)
Minority interest		2,247	(217)	283
Net income (loss)		40,796	(20,531)	30,833
Earnings (loss) per share	(20)			
Basic earnings (loss) per share		1.07	(0.65)	1.23
Number of shares used in computation (in thousands)		37,975	31,572	25,128
Diluted earnings (loss) per share		1.04	(0.65)	1.16
Number of shares used in computation (in thousands)		39,359	31,572	26,488

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except number of shares)

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Gross total	Treasury stock	Total net
Balance as of January 1, 1999	24,696,970	7,624	49,336	104,846	161,806	(1,879)	159,927
Net income	-	-	-	30,833	30,833	-	
Repayment of employees loans	-	-	-	-	-	1,879	
Warrants exercised and debentures converted	1,067,261	259	3,233	-	3,492	-	
Company's shares acquired by a subsidiary	-	-	-	-	-	(3,613)	
Amortization of deferred stock compensation	-	-	128	-	128	-	
Dividend	-		-	(7,755)	(7,755)	-	
Balance as of December 31, 1999	25,764,231	7,883	52,697	127,924	188,504	(3,613)	184,891
Net loss	-	-	-	(20,531)	(20,531)	-	
Issuance of shares	12,100,000	2,963	177,037	-	180,000	-	
Warrants exercised and debentures converted	289,002	70	810	-	880	-	
Tax benefit in respect of options exercised	-	-	889	-	889	-	
Capital reserve in respect of issuance of shares by development stage investees	-	-	3,874	-	3,874	-	
Amortization of deferred stock compensation	-	-	155	-	155	-	
Dividend	-	-	-	(9,430)	(9,430)	-	
Balance as of December 31, 2000	38,153,233	10,916	235,462	97,963	344,341	(3,613)	340,728
Net income	-	-	-	40,796	40,796		
Options exercised	585,860	138	3,162	-	3,300	-	
Tax benefit in respect of options exercised	-	-	1,363	-	1,363	-	
Adjustment in capital reserve	-	-	(3,874)	-	(3,874)	-	
Amortization of deferred stock compensation	-	-	8,512	-	8,512	-	
Treasury stock	-	-	-	-	-	(708)	
Dividend	-	-	-	(12,132)	(12,132)	-	
Balance as of December 31, 2001	38,739,093	11,054	244,625	126,627	382,306	(4,321)	377,985

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	For the year ended December 31		
	2001	**2000**	**1999**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	40,796	(20,531)	30,833
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation amortization and non cash compensation	41,377	20,818	16,835
Purchased in-process research and development	-	40,000	-
Deferred taxes	(2,694)	(6,482)	(5,598)
Severance pay fund	167	(1,196)	848
Provision for severance pay	(800)	9,266	526
Gain on sale of fixed assets and investments	(327)	(575)	(90)
Minority interests and other adjustments	2,762	1,185	(185)
Equity in net losses of affiliated companies	103	1,429	723
Changes in operating assets and liabilities:			
Receivables and prepaid expenses	(10,007)	(18,975)	(65,465)
Inventories	(72,165)	(25,228)	14,113
Accounts payable and accrued expenses	38,013	(3,520)	42,481
Advances received from customers	6,489	(10,632)	22,884
	2,918	6,090	27,072
Net cash provided by (used in) operating activities	43,714	(14,441)	57,905
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed and other assets	(45,296)	(40,374)	(38,763)
Investment grants received	1,334	1,533	1,704
Subsidiaries acquired (Schedule A)	(3,344)	14,133	(23,986)
Investments in affiliated companies and partnerships	(801)	(13,126)	(680)
Proceeds from sale of fixed assets and investments	3,010	1,279	270
Long-term deposits repaid	-	21,227	-
Long-term loans granted to employees	(1,872)	(2,042)	(1,808)
Long-term loans repaid by employees	2,376	2,192	1,962
Short-term loans, net	(111)	(638)	(1,445)
Net cash used in investing activities	(44,704)	(15,816)	(62,746)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of convertible debentures	-	(283)	(579)
Proceeds from exercise of warrants and options	3,300	787	1,362
Repayment of loans to employees for purchase of shares	-	-	1,879
Repayment of long-term credit for purchase of a building	(3,000)	(10,000)	-
Company's shares acquired by the Company and a subsidiary	(708)	-	(3,613)
Long-term loans repaid	(13,049)	(1,852)	(6,178)
Long-term loans received	25,444	33,933	-
Dividends paid	(12,132)	(9,430)	(8,989)
Changes in short-term credit, net	(6,517)	32,321	7,387
Net cash provided by (used in) financing activities	(6,662)	45,476	(8,731)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,652)	15,219	(13,572)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	51,716	36,497	50,069
CASH AND CASH EQUIVALENTS AT END OF YEAR	44,064	51,716	36,497
Cash paid for income taxes	5,079	7,965	8,457
Cash paid for interest	3,560	3,352	2,017

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

(In thousands of U.S. dollars)

	For the year ended December 31		
	2001	**2000**	**1999**
NON CASH TRANSACTIONS			
Building purchased on credit	-	-	13,000
Debentures converted into shares	-	93	2,130
Dividend declared	3,066	3,030	2,294
SCHEDULE A:			
Subsidiaries acquired			
Assets and liabilities at date of acquisition:			
Working capital (except cash)	(888)	39,805	5,887
Fixed assets	1,886	80,493	15,224
Other assets	3,800	84,139	9,564
In-process research and development	-	40,000	-
Long-term liabilities	(1,454)	(76,224)	(6,689)
Investment in subsidiary prior to consolidation	-	(2,346)	-
Issuance of shares	-	(180,000)	-
	3,344	(14,133)	23,986

The accompanying notes are an integral part of the financial statements.

ELBIT SYSTEMS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. dollars)

Note 1 - GENERAL

A. Elbit Systems Ltd. (the "Company") is an Israeli corporation, 32% owned by the Federmann Group and 21% owned by Elron Electronic Industries Ltd. ("Elron") The Company's shares are traded on the Tel Aviv Stock Exchange and on the NASDAQ National Market in the United States. The Company and its principal wholly-owned subsidiaries, EFW Inc. ("EFW") and Elop Electro-Optics Industries Ltd. ("El-Op"), are engaged mainly in the field of defense electronics.

B. The financial statements are prepared in U.S. dollars because the currency of the primary economic environment in which the operations of the Company and subsidiaries are conducted is the U.S. dollar. Thus, the functional currency is the U.S. dollar. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into U.S. dollars in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board of the United States. Exchange gains and losses from the aforementioned remeasurement are reflected in the statement of income.

C. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

D. A substantial majority of the Company's revenues were derived in recent years from direct or indirect sales to governments or to government agencies. As a result, a substantial portion of the Company's sales is subject to the special risks associated with sales to governments or to government agencies.

Note 1 - GENERAL (Cont.)

E. On July 5, 2000, the Company completed its merger with El-Op and issued 12,100,000 ordinary shares to El-Op shareholders, reflecting a market value of $180,000. The number of shares is subject to future price adjustments upon the occurrence of certain substantial events, as described in the merger agreement. The merger was accounted for as a purchase.

The excess of cost over the fair value of the identified net tangible assets ("excess of cost"), in the amount of $109,000 was allocated, based primarily on an independent appraisal, as follows: $40,000 was allocated to in-process research and development ("R&D") which was charged to operations upon completion of the merger; $58,000 (less $14,000 of deferred taxes) was allocated to know-how, trademarks and assembled work-force; and the balance, amounting to $25,000 was allocated to goodwill. Excess of cost amounting to $83,000 is included in other assets in the consolidated balance sheet and is being amortized over an average period of 17 - 20 years. The Company began consolidating El-Op from the third quarter of 2000. Regarding pro forma information - see Note 30. Due to allocation of intangibles acquired to group companies that are subject to different tax rates, and tax liabilities attributed to some foreign subsidiaries at the date of purchase, the Company recorded additional goodwill and deferred tax liability in the amount of approximately $4,200.

At the merger date, El-Op was conducting design, development, engineering and testing activities associated with the completion of numerous projects aimed at developing next-generation technologies that were expected to address emerging market demands in defense and commercial markets. The value assigned to these assets was determined by identifying significant research projects for which technological feasibility had not been established, including development, engineering and testing activities associated with the following areas: thermal imaging (night vision); lasers; avionics; battle field management; fire control systems; remote sensing; airborne/space photography; enhanced landing systems; and other classified projects for the U.S. and Israeli governments.

Note 1 - GENERAL (Cont.)

E. (Cont.)

The nature of the efforts to develop the acquired in-process technology into commercially viable products principally relates to the completion of all planning, designing, prototyping, high-volume verification and testing activities that are necessary to establish that the proposed technologies meet their design specifications including functional, technical and economic performance requirements.

In making its purchase price allocation, management considered present value calculations of income, an analysis of project accomplishments and remaining outstanding items, an assessment of overall contributions as well as project risks. The value assigned to purchased in-process technology was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projection used to value the in-process R&D was based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such projects are based on management's estimates of cost of sales, operating expenses and income taxes from such projects.

Aggregate revenues for the developmental El-Op products were estimated to grow at a compounded annual growth rate of approximately 30 percent for the five years following introduction, assuming the successful completion and market acceptance of the major R&D programs. The estimated revenues for the in-process projects were expected to peak within five to six years of acquisition and then decline as other new products and technologies are expected to enter the market.

The estimated costs of goods sold and operating expenses as a percentage of revenues are expected to be lower than El-Op on a stand-alone basis primarily due to production efficiencies expected to be achieved through economies of scale of the combined operations. As a result of these savings, the combined company has the possibility of achieving slightly higher margins in future periods.

Note 1 - GENERAL (Cont.)

E. (Cont).

The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, a discount rate of 18 to 20 percent was considered appropriate for the in-process R&D. These rates are higher than Elbit Systems overall weighted average cost of capital due to the inherent uncertainties surrounding the successful development of the purchased in-process technology, the useful life of such technology, and the uncertainty of technological advances that are unknown at this time.

If none of the acquired R&D projects is successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. The failure of any particular individual project in-process would not likely impact Elbit Systems financial condition, results of operations or the attractiveness of the overall El-Op investment. Financial results will be subject to uncertain market events and risks, which are beyond Elbit Systems' control, such as trends in technology, government spending, market size and growth and product introduction or other actions by competitors.

F. In the third quarter of 2000, the Company commenced a program of restructuring its business, improving efficiency and reducing expenses. The program consists of the consolidation of redundant activities, reduction of workforce, elimination of excessive inventories and equipment and other related actions.

Pursuant to the program, the Company wrote-off inventories in the amount of $10,300 and equipment in the amount of $5,100. The equipment will not be used in the future by the Company as this equipment is less efficient than other equipment held by the Company.

Through December 31, 2001, the Company paid $3,500 as part of its restructuring plan. The amount includes payments made to consultants, travel and other out-of-pocket expenses.

Note 1 - GENERAL (Cont.)

F. (Cont).

In addition the Company accrued and paid $3,200 for employee severance benefits. The Company's plan includes termination of the employment of a total of 61 manufacturing, marketing and corporate employees both in Israel and the U.S.

The Company is continuing its efforts to increase efficiency and to enhance its operating structure. Additional expenses arising from future decisions will be recorded when the decisions are made.

G. In July 2001, the Company completed the acquisition of a 62.5% interest in Aeroeletronica - Industrial de Componentes Avionicos S.A. (AEL), a Brazilian company located in Porto Alegre, for approximately $3,450. AEL will serve as a center for the production and logistics support of defense electronics for programs in Brazil. The excess of cost over the fair value of identified net tangible assets in the amount of approximately $3,800 was allocated to goodwill and other intangible assets. Subsequent to the balance sheet date the Company signed an agreement to acquire the remaining 37.5% interest in the Company for an additional $900. The acquisition amount include $1,500 held in escrow, pending final resolution of certain liabilities and contingencies of AEL to be resolved over a period of five years following the acquisition.

H. In November 2001, the Company signed an agreement with Elron, Elron Telesoft Inc. and its subsidiaries ("Elron Telesoft") to purchase the assets and the activities of the Defense Systems Division of Elron Telesoft ("the Government Division") in consideration for $5,700. The Government Division is engaged mainly in the development of communication systems, information technology and image intelligence processing for defense and military applications. The acquisition was finalized in January 2002. The excess of cost over the fair value of identified net tangible assets in the amount of approximately $5,200 was allocated to goodwill and other intangible assets. The intangible assets will be amortized over an average period of 5 years.

Subsequent to balance sheet date, and following the completion of the acquisition, a suit was filed in the Antitrust Court in Israel against the Company and the Israel Antitrust Authority (the "Antitrust Authority") by one of the Company's Israeli competitors, challenging the approval granted by the Antitrust Authority to the acquisition. Following consultation with outside counsel, the Company believes that the suit is without merit and will not negatively affect the acquisition.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("US GAAP"). As applicable to the financial statements of the Company, such principles are substantially identical to accounting principles generally accepted in Israel, except as described in Note 31. The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are:

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all entities in which the Company has a majority ownership.

The significant consolidated entities include the following wholly-owned subsidiaries - El-Op, EFW and other Israeli and foreign subsidiaries.

Material intercompany balances and transactions have been eliminated in the consolidation.

B. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined mainly on the basis of the weighted-average cost of materials, labor and overhead.

C. INVESTMENTS IN AFFILIATED COMPANIES AND PARTNERSHIPS

Investments in less than majority-owned companies and partnerships, over which the Company can exercise significant influence, are accounted for by the equity method. Investments in other companies are presented at cost, less a provision for other than temporary reductions in value, as required.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

D. REVENUE RECOGNITION

Revenues from certain contracts that are on a fixed price basis, including linkage to various indexes, where applicable, are recognized in the statements of income, in respect of development contracts, on the percentage of completion method, provided that a material percentage of the costs have been incurred or that material milestones have been achieved, and when contract results can reasonably be estimated. The percentage of completion is calculated based on engineering estimates of progress. Provisions for losses, if any, on contracts in progress are made in the period when such losses are apparent. Revenue from the sale of products is generally recognized upon shipment and, in relevant transactions, after customer acceptance. A provision for warranty on systems and products delivered is made on the basis of the Company's experience and engineering estimates.

E. LONG-LIVED ASSETS

Long-lived assets are stated at cost less investment grants received. In the case of equipment produced by the Company for its own use, cost includes materials, labor and overhead, but not more than the fair value of replacement equipment. Depreciation is calculated by the straight-line method over the estimated useful life of the assets. Other assets include mainly know-how, goodwill and other intangible assets acquired in connection with the purchase of subsidiaries and activities and are amortized over the estimated period of benefit.

The Company assesses on an ongoing basis the recoverability of long-lived assets, including goodwill and other tangible and intangible assets, based on estimates of future undiscounted cash flows for the applicable business compared to net book value. If the future undiscounted cash flows estimate were less than net book value, net book value would then be reduced to fair value based on an estimate of discounted cash flows. The Company also evaluates the amortization periods of all assets to determine whether events or circumstances warrant revised estimates of useful lives. See note 2P for new accounting policy in respect of goodwill.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. EXCHANGE RATES AND LINKED BALANCES

Balances in or linked to foreign currency are included at the rate of exchange at the balance sheet date. Balances linked to the Consumer Price Index in Israel (CPI) are stated using the relevant published index.

G. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, net of participations, are charged to operations as incurred.

H. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowances for doubtful accounts are provided on the basis of specific accounts, the collectibility of which is doubtful.

I. CASH AND CASH EQUIVALENTS

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

J. DEFERRED TAXES

Deferred taxes are calculated using the liability method at rates expected to be in effect when the liability is settled (or the benefit is realized). A valuation allowance is provided, when necessary, to reduce deferred tax assets to their realizable value.

K. EARNINGS PER SHARE

Earnings per share is computed according to Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings per share". Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings per share is computed taking into account convertible debentures and options, where dilutive.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. STOCK-BASED COMPENSATION

As allowed by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company measures compensation cost of options issued to employees under Accounting Principles Board Opinion No. 25 ("APB 25"), including FASB Interpretation No. 44. The Company also gives pro forma information according to the alternative fair value method, as described in SFAS 123.

M. TREASURY STOCK

The Company's shares held by a subsidiary or by the Company are presented at cost and deducted from shareholders' equity.

N. RECLASSIFICATIONS

Certain financial statement data for prior years has been reclassified to conform with current year financial statement presentation.

O. DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The Company enters, as needed, into forward exchange contracts for the purchase or sale of various foreign currencies to hedge certain monetary assets or liabilities against changes in exchange rates. Gains and losses on such contracts are recognized currently and offset the foreign exchange gains or losses on these monetary assets or liabilities. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

P. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations ("SFAS 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. All other intangible assets will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company evaluated the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002, will have on its results of operations and financial position. Had the Company adopted SFAS 142 at January 1, 2001, the Company would not have recorded amortization of goodwill of approximately $2,800 in the year ended December 31, 2001.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”). Although SFAS 144 supersedes FASB Statement No. 121, it retains the requirements of SFAS 121 regarding recognition of impairment loss for long-lived assets to be held and used (based on undiscounted cash flows) and resolves certain implementation issues. Also, the accounting model used in SFAS 121 for long-lived assets to be disposed of by sale (lower of carrying amount or fair value less cost to sell) is broadened by SFAS 144 to include discontinued operations and supersedes APB Opinion No. 30. Therefore, discontinued operations will no longer be measured on a net realizable value basis and future operating losses will no longer be recognized before they occur. SFAS 144 also broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those years. The Company believes that the adoption of SFAS 144 will not have a material impact on the Company’s financial statements.

Note 3 - DEPOSITS WITH BANKS AND OTHERS

	December 31	
	2001	2000
Banks	1,446	1,357
Others	1,494	1,526
	2,940	2,883

Note 4 - ACCOUNTS RECEIVABLE

A. Accounts receivable - trade

	December 31	
	2001	2000
Open accounts (*)	175,275	130,542
Unbilled receivables	69,752	78,798
Less - allowance for doubtful accounts	(3,200)	(2,957)
	241,827	206,383
(*) Includes affiliated companies	11,157	5,482

B. Long-term receivables include amounts due to the Company in connection with certain contracts. The receivables are guaranteed by governmental authorities and their majority portion is insured by financial institutions. The receivables are payable over a period of up to three and a half years, with interest rates of up to Libor +4.5%.

Note 5 - OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31	
	2001	2000
Prepaid expenses	13,445	12,780
Government departments	5,001	10,400
Employees	444	1,027
Deferred taxes	12,884	7,119
Sundry	6,453	6,167
	38,227	37,493

Note 6 - INVENTORIES, NET OF ADVANCES

	December 31	
	2001	2000
Contracts in progress	155,712	122,108
Materials	70,133	51,359
Advances and payments on account	30,955	18,532
	256,800	191,999
Less -		
Inventories deducted from advances	10,961	24,608
	245,839	167,391
Less -		
Advances received from customers	49,969	23,006
Provision for losses	10,780	13,361
	185,090	131,024

Note 7 - AFFILIATED COMPANIES AND OTHER INVESTMENTS

	December 31	
	2001	2000
SCD (1)	13,036	15,177
VSI (2)	2,030	301
Red C (3)	2,549	3,797
Opgal	1,894	2,871
Other (4)	11,983	13,355
	31,492	35,501

(1) Semi Conductor Devices ("SCD"), a partnership, is held 50% by the Company. SCD owns 27% (23% on a fully diluted basis) of Cy-Optics Ltd., a development stage company in the field of optical communications. In October 2000, Cy-Optics completed a round of equity financing amounting to $57,000, of which $4,800 was invested by SCD.

(2) Vision Systems International LLC ("VSI") based in San Jose, California is a limited liability company that is held 50% by EFW. VSI acts on a world-wide basis in the area of helmet mounted display systems for fixed wing military and paramilitary aircraft.

Note 7 - AFFILIATED COMPANIES AND OTHER INVESTMENTS (CONT.)

(3) A company in the multi-focal optic communications sector, held 36.5% by El-Op (which is wholly-owned by the Company).

(4) Including an investment and convertible loan of $7,230 (2000 - $8,498) in a company engaged in operation of satellite photography formations, and commercial delivery of satellite photography for civil purposes, and in which El-Op owns 9%.

Including an investment of $3,500 in Sultam Systems Ltd. ("Sultam"). Sultam, held 10% by the Company, is engaged in the development and manufacture of military systems in the artillery sector.

(5) The Company has provided, on a proportional basis to its ownership interest, guarantees for three of its investees in respect of credit lines from banks amounting to $10,700, of which $9,700 relates to foreign investees owned 50% by the Company and the balance to an Israeli partnership held 50% by the Company

Note 8 - DEPOSITS

	December 31	
	2001	**2000**
Deposits with bank for loans granted to employees (*)	2,238	2,688
Other deposits	1,195	935
	3,433	3,623

(*) The deposits are linked to the Israeli CPI, bear annual interest of 4% and are presented net of current maturities of $746 (2000 - $800).

Note 9 - PROPERTY, PLANT AND EQUIPMENT

	Balance at January 1 2001	Additions	Disposals	Balance at December 31 2001
Cost (1):				
Land, buildings and leasehold improvements	98,341	15,002	-	113,343
Instruments, machinery and equipment	126,192	22,439	1,918	146,713
Office furniture and other	19,034	2,874	15	21,893
Motor vehicles	18,514	4,510	3,309	19,715
	262,081	44,825	5,242	301,664
Accumulated depreciation:				
Buildings and leasehold improvements	9,256	2,968	-	12,224
Instruments, machinery and equipment	72,506	17,102	1,770	87,838
Office furniture and other	9,840	1,591	3	11,428
Motor vehicles	4,598	2,856	2,054	5,400
	96,200	24,517	3,827	116,890
Net book value	165,881			184,774

(1) Net of investment grants received (mainly for instruments and equipment) in the amounts of $38,300 and $37,000 as of December 31, 2001 and 2000, respectively. Cost includes assets fully depreciated and still in use in the amount of $124,000 as of December 31, 2001 (2000 - $108,800).

(2) Includes, in part, rights in approximately 9,225 square meters of land in Tirat Hacarmel, Israel, which were assigned to the Company, of which approximately 2,300 square meters are owned and the remaining land is leased from the Israel Land Administration until the years 2014 to 2024 with an option to renew the lease for additional periods of 49 years. The Company's rights in the lands have not yet been registered in its name.

Note 9 - PROPERTY, PLANT AND EQUIPMENT (cont.)

(3) As part of the El-Op merger, the Company acquired rights in a plot of land in Rehovot, which was leased from the Israel Land Administration by El-Op. The lease is conditional on the development of this plot of land.

(4) Property, plant and equipment are depreciated mainly by the straight-line method at annual rates as follows:

	%	
Buildings and leasehold	2.5 - 20	(mainly 4%)
Instruments, machinery and equipment	20 - 33	
Office furniture and other	6 - 20	
Motor vehicles	15 - 33	(mainly 15%)

Land rights are amortized over the lease period.

Note 10 - OTHER ASSETS, NET

	Annual rate of depreciation (%)	December 31	
		2001	2000
Cost:			
Know-how and other intangible assets (1) (3)	5 - 12.5	75,995	75,071
Goodwill and assembled work-force (2) (3)	5 - 10	43,704	35,535
		119,699	110,606
Accumulated amortization:			
Know-how and other intangible assets		9,379	3,862
Goodwill and assembled work-force		5,037	2,206
		14,416	6,068
Net book value		105,283	104,538
Total amortization expense		8,348	5,401

(1) Includes mainly intangible assets acquired in the merger with El-Op (mainly know-how which is amortized at an annual rate of 5%).

Note 10 - OTHER ASSETS, NET (CONT.)

(2) Includes mainly intangible assets acquired in the merger with El-Op (mainly goodwill which is amortized at an annual rate of 5%).

(3) On December 28, 2000, EFW acquired the assets and the activities of Honeywell Inc. relating to head-up displays and tracking systems for helmets in consideration for $14,000. The excess of cost over the fair value of identified net tangible assets, in the amount of $11,000, is being amortized over a period of 15 years.

Note 11 - LOANS AND SHORT-TERM CREDIT

Includes mainly loans and short-term credits from banks in U.S. dollars, bearing interest of LIBOR + 0.5% - 1.0%.

Note 12 - SUNDRY ACCRUALS

	December 31	
	2001	2000
Payroll and related expenses (1)	44,116	38,254
Government departments	32,296	25,895
Cost provisions and other (2)	60,391	51,276
	136,803	115,425
(1) Includes provision for vacation pay	18,380	17,472
(2) Includes provision for warranty	31,172	30,658

Note 13 - ADVANCES FROM CUSTOMERS, NET OF INVENTORIES

	December 31	
	2001	2000
Advances received	184,112	175,921
Less -		
Advances presented under long-term liabilities	29,840	33,789
Advances deducted from inventories	49,969	23,006
	104,303	119,126
Less -		
Inventories	10,961	24,608
	93,342	94,518

Note 14 - LONG-TERM LOANS

Include principally, loans linked to the U.S. dollar and bearing interest at LIBOR + 0.5% - 0.75% and loans linked to EURO bearing interest of EUROLIBOR + 1.25%. The maturities of these loans after December 31, 2002 are as follows:

2002 - current maturities	2,862
2003	37,874
2004	3,067
2005	2,143
2006	2,143
After 2006	23,975
	69,202

The LIBOR rate as of December 31, 2001 was 1.98%.

Note 15 - LIENS

In connection with bank credits, including performance bonds issued by banks and bank guarantees securing certain advances from customers, the Company and certain subsidiaries are obligated to meet certain loan covenants. Management believes that the Company is meeting the conditions of these covenants.

The Company has transferred legal title of inventories to certain customers as collateral for advances received.

See Note 19 for information relating to a lien in connection with grants received from the Government of Israel.

As collateral for liabilities of certain group companies to banks and others, these companies recorded fixed charges on most of their machinery and equipment, mortgages on most of their real estate and floating charges on most of their assets.

Note 16 - EMPLOYEE TERMINATION OBLIGATIONS

Under Israeli law and employment agreements, the companies in Israel are required to make severance payments and, in certain situations, pay pensions to terminated employees. The calculation is based on the employee's latest salary and the period employed. The companies' obligation for severance pay and pension is discharged by payment of premiums to insurance companies under approved plans and to pension funds.

The balance of the severance pay liability of the companies not covered by the aforementioned deposits is recorded as a liability in the balance sheet. The deposits presented in the balance sheet include profits accumulated to balance sheet date. The amounts deposited may be withdrawn only after fulfillment of the obligations under the Severance Pay Law.

Total pension expense of the Company and its Israeli subsidiaries was $8,097, $5,591 and $3,128 for the years ended December 31, 2001, 2000, 1999, respectively.

Note 16 - EMPLOYEE TERMINATION OBLIGATIONS (CONT.)

Certain subsidiaries in the U.S. have adopted for its employees benefit plans as follows:

Defined Benefit Retirement Plan

A defined benefit retirement plan is a noncontributory plan that provides benefits that are based on years of service and average compensation. Total benefit cost in the year ended December 31, 2001 was approximately $800.

Defined Contribution Plan

The 401(k) savings plan ("401(k) plan") is a defined contribution retirement plan that covers all eligible employees, as defined in section 401(k) of the U.S. Internal Revenue Code. Employees may elect to contribute a percentage of their annual gross compensation to the 401(k) plan. The Company may make discretionary matching contributions as determined by the Company. Total expense under the 401(k) plan amounted to $639 for the year ended December 31, 2001.

Note 17 - INCOME TAXES

A. APPLICABLE TAX LAWS

(1) The Company and certain subsidiaries in Israel qualify as "Industrial" companies under the Law for the Encouragement of Industry (Taxes), 1969. The main benefits under this law are depreciation at accelerated rates and the deduction of costs relating to the issuance of publicly-traded securities.

(2) Certain production facilities in Israel have been granted "Approved Enterprise" status under the Law for the Encouragement of Capital Investments, 1959. Income derived from such enterprises is subject to a reduced rate of tax during a period of seven years commencing in the year in which such enterprise first generates taxable income (limited to twelve years from commencement of production or fourteen years from the date of approval, whichever is earlier). As of December 31, 2001, three approved programs of the Company are eligible for tax benefits, which will expire in 2002 to 2007. In addition as of December 31, 2001, El-Op has five approved programs which are eligible for tax benefits, which will expire in 2002 to 2007.

(3) The companies in Israel are subject to income taxes under the provisions of the Income Tax Law (Inflationary Adjustments) 1985. Under this law, the companies are entitled to a tax deduction for the preservation of equity invested in non-fixed (soft) assets. This equity is defined, primarily, as shareholders' equity less fixed (inflation-resistant) assets. The deduction is measured by the change in the CPI.

B. TAX ASSESSMENTS

The Company has received final tax assessment through 1999. The Company estimates that final tax assessments for the years ended 1999 and 2000 in Israel and other jurisdictions will be finalized through 2002. Management believes that the Company's provisions will be sufficient in order to cover any tax liability arising from the overall assessments. El-Op has received final tax assessments through 1997.

Note 17 - INCOME TAXES (CONT.)

C. INCOME TAX EXPENSE

	For the year ended December 31		
	2001	**2000**	**1999**
Income (loss) before taxes on income -			
Israel	42,512	(13,779)	34,822
Other countries	7,638	1,121	6,194
	50,150	(12,658)	41,016
Taxes on income included in the income statements -			
Current taxes:			
Israel	9,385	8,710	11,064
Other countries	3,048	879	4,277
	12,433	9,589	15,341
Deferred taxes:			
Israel	(839)	(5,309)	(3,105)
Other countries	(591)	1,947	(2,493)
	(1,430)	(3,362)	(5,598)
Total	11,003	6,227	9,743

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Note 17 - INCOME TAXES (CONT.)

D. Main components of net deferred tax assets and liabilities are as follows:

		Deferred tax asset (liability)	
	Total	**Current**	**Noncurrent**
As of December 31, 2001			
Deferred tax assets:			
Vacation and other	8,818	5,561	3,257
Inventory	7,323	7,323	-
Tax loss carryforwards	4,248	-	4,248
Severance pay	1,502	-	1,502
	21,891	12,884	9,007
Deferred tax liabilities:			
Depreciation and other (*)	(28,794)	-	(28,794)
	(28,794)	-	(28,794)
Valuation allowance	(2,202)	-	(2,202)
Net deferred tax assets (liabilities)	(9,105)	12,884	(21,989)
As of December 31, 2000			
Deferred tax assets:			
Vacation and other	5,713	5,713	-
Restructuring expenses	1,406	1,406	-
Tax loss carryforwards	1,710	-	1,710
Severance pay	933	-	933
	9,762	7,119	2,643
Deferred tax liabilities:			
Severance pay	(683)	-	(683)
Depreciation and other (*)	(19,681)	-	(19,681)
	(20,364)	-	(20,364)
Valuation allowance	(1,710)	-	(1,710)
Net deferred tax assets (liabilities)	(12,312)	7,119	(19,431)

(*) Includes $20,443 in respect of assets acquired in the merger of El-Op (2000 - $17,508).

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Note 17 - INCOME TAXES (CONT.)

E. Reconciliation of the theoretical tax expense, assuming all income is taxed at the statutory rate, and the actual tax expense:

	For the year ended December 31		
	2001	**2000**	**1999**
Statutory tax rate	36%	36%	36%
Theoretical tax expense (benefit)	18,054	(4,557)	14,766
Tax benefit arising from reduced rate as an "Approved Enterprise"	(7,697)	(4,015)	(4,338)
Increase in taxes resulting from nondeductible expenses	571	15,280	334
Other differences, net	75	(481)	(1,019)
Total	11,003	6,227	9,743
Effective tax rate	21.9%	-	23.8%

Note 18 - CONTINGENT LIABILITIES AND COMMITMENTS

A. The Company and certain subsidiaries are obligated to pay royalties to the Government of Israel in respect of products in which the Government participated in the development by way of grants, computed at the rate of 2% to 5% of proceeds from sale of such products, up to between 100% to 150% of the amount of such grants (commencing in 1999 - plus interest). In some cases, the Government of Israel participation (through the office of the Chief Scientist) is conditional upon export sales or other conditions. The ceiling on royalties is increased in event of production outside of Israel.

The Company and certain of its subsidiaries are also obligated to pay certain amounts to the Israeli Ministry of Defense and others on certain sales including sales resulting from the development of certain technology.

Note 18 - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

B. In September 2001, the Chief Scientist issued "Regulations for the Encouragement of Research and Development in Industry" (rules for determining the level and payment of royalties) ("the Program"). The regulations allow large R&D intensive companies to reach certain agreements with the Chief Scientist regarding determination of the amount and payment schedule of royalties, subject to certain conditions.

The Company is evaluating the effect of the new regulations. The Company estimates that as a result of these changes the Company may have, if it elects to participate in the Program, a significant one-time expense resulting from recording a liability for an absolute amount of royalties.

Subsequent to the balance sheet date, the Chief Scientist's Committee agreed to include El-Op in the Program and suggested that El-Op will pay an amount of $10,632. The acceptance of the proposed suggestion and the final amounts to be paid by El-Op is subject to the approval of El-Op's Board of Directors.

The Company has not yet concluded its discussions with the Chief Scientist's Committee and the terms of any agreements, if applicable to the Company, and their effect on the Company have not yet been determined.

C. In connection with long-term projects in certain countries, the Company undertook to use its best efforts to make or facilitate purchases or investments in those countries at certain percentages of the amount of the projects.

The Company's obligation to make or facilitate third parties making such investments and purchases is subject to commercial conditions in the local market, typically without a specific financial penalty. The maximum aggregate undertaking, which as of December 31, 2001 amounted to $620,000 to be performed over a period of up to 11 years, is typically tied to a percentage (up to 100%) of the amount of the specific contract.

In the opinion of management, the actual amount of the investments and purchases is anticipated to be less than that mentioned above, since certain investments and purchases can result in reducing the overall undertaking on more than a one to one basis.

Note 18 - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

D. The Company and its subsidiaries are involved in legal claims arising in the ordinary course of business, including claims by employees, consultants and others. Company management, based on the opinion of its legal counsel, believes the amount of such claims in excess of the accruals recorded in the financial statements will not have a material adverse effect on the financial position or results of operations of the Company.

E. Minimum future rental payments under operating leases through the period ending in 2006 amount to approximately $5,200 per annum (at exchange rates in effect on December 31, 2001). Lease expenses amounted to approximately $3,700, $6,100 and $8,075 in the years 1999, 2000 and 2001, respectively.

F. The Company and El-Op have received pre-rulings from the tax authorities, which allow them to transfer development products and assets to companies under their ownership without any tax liability pursuant to section 104 of the Israeli Income Tax Ordinance. Noncompliance by the Company or subsidiaries with the terms of the pre-rulings will result in the retroactive cancellation of the aforementioned exemption from taxes.

Note 19 - INVESTMENT GRANT

The original enterprises of certain group companies and their expansion programs were approved under the Law for the Encouragement of Capital Investments, 1959, and thus are entitled to certain grants from the State of Israel in respect of investments in such programs. The law provides that receipt of the grant is conditional on the full implementation of the approved project and compliance with the conditions of the approval. Accordingly, a lien on the Companies' Approved Enterprises has been registered in favor of the State of Israel. Grants received in respect of projects which have not yet been approved amount to approximately $3,800. Management believes that the group companies are meeting the conditions of the approval.

Note 20 - SHARE CAPITAL

A. SHARES ISSUED TO ELBIT LTD. EMPLOYEES

In 1990, Elbit Ltd. issued 850,000 shares to employees at a discount and purchased additional shares for release to employees at a discount. The total number of shares included in this plan was 1,870,000. In 1994 Elbit Ltd. issued 750,000 shares to employees at approximately market price. The 1994 plan was implemented in accordance with section 102 of the Israeli Income Tax Ordinance. The employees received loans through a bank for purchase of the shares. As of December 31, 1999, all the shares were realized and the loans were repaid.

B. 1996 EMPLOYEE STOCK OPTION PLAN

In December 1996, the Company adopted an employee stock option plan pursuant to which options (series A) to buy 2,100,000 ordinary shares may be granted to employees. In April 1998, the Company amended the plan in order to be able to grant an additional 322,000 options. The exercise price approximates market price of the share at the grant date less 15%. The options vest over a period of two to four years and are exercisable for a period of six years from the date of grant. The plan is implemented in accordance with Section 102 of the Israeli Income Tax Ordinance.

C. 2000 EMPLOYEE STOCK OPTION PLAN

In October 2000, the Company adopted another employee stock option plan for employees comprising options to purchase up to 2,500,000 ordinary shares. An additional 2,500,000 options are to be issued as “phantom” shares options that grant the option holders a number of shares reflecting the benefit component of the options exercised, as calculated at the exercise date, in consideration for their par value only. The options are exercisable for a period of six years from the date of grant.

Note 20 - SHARE CAPITAL (CONT.)

D. "PHANTOM" SHARE OPTIONS

The phantom share options are considered as part of a variable plan as defined in APB 25, and accordingly the compensation cost of the options is estimated based on the market price of the Company's shares at the end of every reporting period and amortized over the vesting period.

E. Compensation costs relating to employee stock options recognized in the statements of income amounted to $128, $155 and $8,512 in the years 1999, 2000 and 2001, respectively.

F. Transactions in options granted to employees during the three years ended December 31, 2001, are as follows:

	Number of options	Weighted average exercise price per share (in dollars)	Weighted average fair values of options granted (in dollars)
Options outstanding as of January 1, 1999	2,193,900		
Granted	53,000	11.80	3.61
Exercised	(705,857)	7.80	
Forfeited	(69,213)		
Options outstanding as of December 31, 1999	1,471,830		
Granted	4,530,662	12.32	4.34
Exercised	(268,753)	7.64	
Forfeited	(61,821)		
Options outstanding as of December 31, 2000	5,671,918		
Granted	98,840	12.91	4.96
Exercised	(598,348)	11.93	
Forfeited	(64,776)		
Options outstanding as of December 31, 2001	5,107,634		

Note 20 - SHARE CAPITAL (CONT.)

F. (Cont.)

The following table summarizes information about options outstanding and exercisable at December 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2001	Weighted-average remaining contractual life (years)	Weighted-average exercise prices $	Number outstanding at December 31, 2001	Weighted-average exercise prices $
1.93	132,634	1.00	1.93	132,634	1.93
10.61-13.58	451,330	2.51	10.78	240,124	10.63
12.18-15.07	2,261,835	4.91	12.33	519,084	12.32
12.18-15.07	(*) 2,261,835	4.91	12.33	519,084	12.32

(*) Phantom share options - see Note 20D.

As described in Note 2L, compensation cost is measured under the intrinsic value method pursuant to APB 25. If compensation cost had been determined under the alternative fair value accounting method provided for under FASB Statement No. 123, the Company's net income (loss) and basic and diluted net income (loss) per share would have been decreased to the following pro forma amounts.

	For the year ended December 31		
	2001	2000	1999
Net income (loss):			
As reported	40,796	(20,531)	30,833
Pro forma	37,723	(21,106)	30,603
Basic net income (loss) per share:			
As reported	1.07	(0.65)	1.23
Pro forma	0.99	(0.67)	1.22
Diluted net income (loss) per share:			
As reported	1.04	(0.65)	1.16
Pro forma	0.96	(0.67)	1.15

Note 20 - SHARE CAPITAL (CONT.)

F. (Cont.)

Under Statement 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 2000 and 2001: (1) expected life of the option of 5.5 years (1999 - 3.0 years, 2000 – 5.6 years); (2) dividend yield of 2.03% (1999 - 1.97%, 2000 - 2.0%); (3) expected volatility of 33.8% (1999 - 40.5%, 2000 - 49.5%) (4) risk-free interest rate of 2% (1999 - 5%, 2000 - 6%)

G. Earnings per share

	For the year ended December 31, 2001			For the year ended December 31, 2000			For the year ended December 31, 1999		
	Income	Shares	Per share amount	Loss	Shares	Per share amount	Income	Shares	Per share amount
Basic earnings	40,796	37,975	1.07	(20,531)	31,572	(0.65)	30,833	25,128	1.23
Effect of dilutive securities:									
Convertible debentures	-	-	-	-	-	-	52	343	-
Options	-	1,384	-	-	-	-	-	1,017	-
Diluted earnings	40,796	39,359	1.04	(20,531)	31,572	(0.65)	30,885	26,488	1.16

Note 21 - REVENUES

	For the year ended December 31		
	2001	**2000**	**1999**
A. Geographical breakdown of revenues:			
Export and international	537,851	431,696	337,107
Domestic	226,650	159,388	98,923
	764,501	591,084	436,030
B. Composition of revenue by geographic areas:			
Europe	23%	21%	39%
U.S.	27%	32%	27%
Israel	30%	27%	23%
Other	20%	20%	11%
	100%	100%	100%
C. Composition of revenues by products:			
Airborne systems	334,201	257,884	262,930
Armored vehicles systems	126,300	111,800	67,000
Command, control and communications systems	105,800	113,700	104,400
Electro-optical systems	162,700	91,100	-
Others	35,500	16,600	1,700
	764,501	591,084	436,030
D. The following customers accounted for 10% or more in sales:			
Customer A	20%	26%	26%
Customer B	8%	7%	21%

Note 22 - COST OF REVENUES

	For the year ended December 31		
	2001	2000	1999
Materials	182,936	133,900	70,557
Labor	187,558	148,063	85,453
Subcontractors	129,057	78,983	101,226
Maintenance of buildings and services	28,824	15,374	10,876
Other manufacturing expenses	31,342	30,644	16,424
Depreciation	20,979	12,713	8,345
Royalties	8,252	6,661	5,474
	588,948	426,338	298,355
Amortization of know-how and technology	3,497	1,706	-
Increase in provision for additional costs, warranties and expected losses	29	3,975	14,339
	592,474	432,019	312,694
Less:			
Cost of equipment produced for own use	4,913	6,651	4,317
Increase (decrease) in inventories of work-in-progress	33,604	(7,418)	(11,406)
	38,517	(767)	(7,089)
	553,957	432,786	319,783

Note 23 - RESEARCH AND DEVELOPMENT EXPENSES, NET

	For the year ended December 31		
	2001	2000	1999
Total expenses	69,215	53,251	38,998
Less – participations	9,112	8,977	6,343
	60,103	44,274	32,655

Note 24 - MARKETING AND SELLING EXPENSES

	For the year ended December 31		
	2001	2000	1999
Salaries and related expenses	23,379	14,205	8,654
Commissions	20,648	11,546	13,116
Advertising and exhibitions	4,792	3,130	1,546
Depreciation and amortization	2,709	1,584	796
Other	3,395	7,984	4,463
	54,923	38,449	28,575

Note 25 - GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2001	2000	1999
Salaries and related expenses	27,113	12,074	7,620
Office expenses	7,060	4,063	2,355
Depreciation and amortization	2,730	3,947	2,366
Other	6,621	6,167	3,141
	43,524	26,251	15,482

Note 26 - FINANCING INCOME (EXPENSES), NET

	For the year ended December 31		
	2001	2000	1999
Income	6,177	6,523	7,554
Less - expenses:			
On long-term debt and debentures	3,033	1,442	39
On short-term loans and credit	4,306	3,626	3,589
Other, including exchange rate differences, net	1,456	1,340	2,281
	8,795	6,408	5,909
	(2,618)	115	1,645

Note 27 - OTHER INCOME (EXPENSES), NET

	For the year ended December 31		
	2001	2000	1999
Gain on disposal of fixed assets	327	597	90
Other, net	447	(594)	(254)
	774	3	(164)

Note 28 - TRANSACTIONS WITH RELATED PARTIES

	For the year ended December 31		
	2001	2000	1999
Income -			
Sales	6,310	2,824	7,187
Expenses charged	633	626	683
Cost and expenses -			
Supplies and services	34	106	9,316
Participation in expenses	1,632	1,464	2,212
Financing expenses	167	-	6

The Company's President and CEO is entitled for a three-year period, starting in July 2000, to an annual bonus of not less than 1% of the Company's net income after tax (excluding unusual expenses such as amortization of goodwill), and is also entitled to up to 10% of the number of options or shares issued by the Company to its employees and under the same terms (see Note 20). A former director of the Company received substantially similar benefits from July 2000 to December 2001.

Note 29 - CONCENTRATION OF CREDIT RISKS

A. Unless otherwise noted, the carrying amount of financial instruments approximates fair value. Financial instruments consist of short-term loans and credit or other instruments bearing interest at close to market rates. Non-interest bearing long-term accounts receivable are presented at discounted value.

The Company estimates the fair value of its financial instruments based on current and applicable interest rates for similar financial instruments. As most of the short-term financial instruments bear a variable interest, the carrying amount approximates its fair value.

B. Financial instruments, which potentially subject the Company to a concentration of credit risk principally consist of cash (in dollars or linked to dollars or in New Israeli Shekels), short-term investments (mainly deposits) and trade receivables.

The Company insures certain trade receivables of certain customers through the Israel Foreign Trade Insurance Company and other credit insurance providers.

Note 29 - CONCENTRATION OF CREDIT RISKS (CONT.)

B. (CONT.)

The Company performs ongoing credit evaluations of its customers and maintains allowances for credit losses.

The Company receives advances from the customers. In other cases, the decision of the Company on collateral required is based on management's credit evaluation of the counter party on a case-by-case basis.

To ensure the dollar value of certain assets and liabilities, the Company and it's subsidiaries have entered into forward exchange contracts. As of December 31, 2001, the Company and its subsidiaries had contracts with notional value of $12,700 to purchase and sell foreign currencies. Contracts mature in 2002.

The fair value of the foreign exchange contracts as of December 31, 2001 approximates their carrying amount, which is immaterial.

Note 30 - PROFORMA INFORMATION

The following unaudited proforma data is based on historical financial statements of the Company and El-Op and is provided for comparative purposes only. The proforma information does not purport to be indicative of the results that actually would have occurred had the merger agreement been consummated prior to the beginning of the reported periods.

The proforma information reflects the results of the Company's operations assuming that the merger had been in effect prior to each of the reported periods, and under the following assumptions:

1. Goodwill and other intangible assets arising from the merger of approximately $83,000, net of related deferred taxes of approximately $14,000, is amortized over an average period of 17 years.

2. Excess of cost over equity purchased allocated to real estate assets of approximately $25,000, net of related deferred taxes of approximately $4,000, is amortized over a period of 25 years.

3. The cost attributed to purchased in-process R&D projects, in the amount of approximately $40,000 has been charged to operations immediately as a non-recurring item and is not included in the proforma consolidated results.

4. Intercompany balances and transactions have been eliminated.

Note 30 - PROFORMA INFORMATION (CONT.)

5. Management fees of approximately $3,000 per annum, which will not be paid in the future pursuant to the merger agreement were eliminated in the proforma statements.

	For the year ended December 31 2000
Revenues	699,114
Net loss as reported	(20,531)
Adjustments:	
Elimination of the charge to operations for purchased in-process research and development	40,000
Other adjustments, net	(2,570)
Net income - proforma (*)	16,899
Basic earnings per share - proforma	0.45
Diluted earnings per share - proforma	0.44

(*) The proforma net income for the year ended December 31, 2000 includes net restructuring expenses in the amount of $16,800.

Note 31 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its primary financial statements in accordance with US GAAP. The main differences between US GAAP and Israeli GAAP and the influence of implementing US GAAP on these financial statements, are detailed below.

A. Differences between US GAAP and Israeli GAAP:

(1) A building purchased from Elbit Ltd.

According to generally accepted accounting principles in Israel, the Company charged to capital reserves the excess of the amount paid over net book value of a building acquired from Elbit Ltd in 1999.

According to US GAAP, the entire amount paid is considered as the cost of the building acquired.

Note 31 - RECONCILIATION TO ISRAELI GAAP (CONT.)

A. Differences between US GAAP and Israeli GAAP (CONT):

(2) Proportional consolidation method

According to Israeli GAAP, a jointly controlled company should be included according to the proportional consolidation method. According to US GAAP, the investment in such a company is recorded according to the equity method.

(3) Gain on issuance of shares by development stage company

According to Israeli GAAP, gain arising from the issuance of shares by an investee company in the development stage is deferred and credited to operations based on the higher of either a pro-rata allocation over a period of three years or the investor's equity in the losses of the investee, on a cumulative basis. Under US GAAP such gain is not credited to operations.

(4) Dividends

According to US GAAP, dividends are recorded in the period they are declared.

According to Israeli GAAP, dividends declared subsequent to balance sheet date are included in the not yet issued financial statements if they relate to that period.

(5) Tax benefit in respect of options exercised

According to Israeli GAAP, tax benefits from employee options exercised are recorded as a reduction of tax expense. According to US GAAP, the difference between the above mentioned tax benefits and the benefits recorded in respect of compensation expense in the financial statements is credited to capital reserves.

Note 31 - RECONCILIATION TO ISRAELI GAAP (CONT.)

B. The effects of the above differences between US GAAP and Israeli GAAP on the Company's financial statements are detailed below.

1. Statements of income

	For the year ended December 31		
	2001	**2000**	**1999**
A) Net income (loss) as reported according to US GAAP	40,796	(20,531)	30,833
Effect of depreciation of the building purchased from Elbit Ltd.	404	404	202
Effect of the issuance of shares by development stage company	-	529	-
Effect of tax benefits in respect of employee options exercised	1,363	889	-
Net income (loss) according to Israeli GAAP	42,563	(18,709)	31,035
B) Earnings per share			
Basic net income (loss) per share			
As reported according to US GAAP	1.07	(0.65)	1.23
As per Israeli GAAP	1.11	(0.59)	1.24
Diluted net income (loss) per share			
As reported according to US GAAP	1.04	(0.65)	1.16
As per Israeli GAAP	1.11	(0.59)	1.17

Note 31 - RECONCILIATION TO ISRAELI GAAP (Cont.)

2. Shareholders Equity

	As reported	Adjustments	As per Israeli GAAP
As of December 31, 2001			
Shareholders equity	377,985	(12,149)	365,836
As of December 31, 2000			
Shareholders equity	340,728	(15,162)	325,566

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